LEGISLATIVE SERVICES AGENCY

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FISCAL IMPACT STATEMENT

LS 6396
BILL NUMBER: SB 248

NOTE PREPARED: Mar 20, 2013
BILL AMENDED: Mar 20, 2013

SUBJECT: State Pensions and Wage Payment and Wage Claims.

FIRST AUTHOR: Sen. Walker
FIRST SPONSOR: Rep. Steuerwald

BILL STATUS: CR Adopted - 2nd House

FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) The bill increases to 2% the amount of a state employee's base salary contributed during the first year the employee is automatically enrolled in the state's Deferred Compensation Plan (DC Plan), if that amount is greater than the maximum state match. Currently, a state employee's contribution in the first year the employee is automatically enrolled in the DC Plan is the greater of: (1) the maximum state match; or (2) 0.5% of the employee's base salary.

The bill also provides that benefits and assets in the Legislators' Defined Contribution Fund are exempt from levy, sale, garnishment, attachment, or other legal process, and may not be assigned, except in relation to a qualified domestic relations order.

The bill provides that criminal offenders in a facility operated by the Department of Correction (DOC) or operated by a private operator under contract with DOC are exempt from certain provisions concerning the frequency of wage payment and wage claims.

Effective Date: (Amended) Upon passage; July 1, 2013.

Explanation of State Expenditures: (Revised) *Changes to Employee Contributions into DC Plan* - The bill will not cost the state, as an employer, any additional funds to increase the automatic employee contributions into the DC Plan. However, the bill will affect the Auditor of State, who is the DC Plan administrator, and the Indiana Deferred Compensation Commission, the DC Plan trustee. The bill's requirements are within both organizations' routine administrative functions and should be able to be implemented with no additional appropriations, assuming near customary agency staffing and resource levels.

(Revised) *Legislators' Defined Contribution Fund* - The bill will affect the Indiana Public Retirement System (INPRS), as administrator of the Legislators' Defined Contribution Fund. INPRS estimates that the provision within the bill that allows for the assignment in the event of a qualified domestic relations order will result in additional costs to INPRS. As the fund is not currently set up for these types of assignments, it is anticipated that there will be a one-time implementation cost of $10,000. Additionally, it is estimated that each legal order subsequent to a divorce or legal separation that splits and changes ownership of a member's retirement plan will cost INPRS between $800 and $1,200. It is unknown how many of these legal orders will occur.

(Revised) *Exemption of Criminal Offenders from Wage Payment and Wage Claims Provisions* - The Attorney General defends DOC when a wage payment or wage claim action is filed by a prisoner against the DOC. This provision is expected to decrease the costs of the Attorney General in defending these lawsuits by an indeterminate amount. The cost of defending a lawsuit will depend upon the circumstances of the individual case. Currently, there are approximately 1,900 prisoners who are employed by PEN Products (a division of DOC) and are therefore affected by this provision.

Background: The DC Plan consists of 457(b) and 401(a) plans, similar to private sector 401(k) plans. The 457 (b) plans are made up of employee contributions and the 401(a) plans are funded with employer contributions. As of the end of CY 2012, more than 21,000 state employees participate in the DC Plan, which constitutes 71% of all state employees. Aggregate DC Plan account balances total $735.6 M.

In 2007, the DC Plan statute was changed so that new employees are automatically enrolled in the plan and must actively opt out of participating. In FY 2012, less than 3% of new hires opted out of the DC plan.

Currently, the employer biweekly match into the DC Plan is $15. For the vast majority of state employees, the state match amount is consistently greater than 0.5% of base salary. Of new enrollees in FY 2012, 941 out of 3,337 opted to contribute more than the minimum match amount.

The bill will raise the biweekly employee contribution to the greater of 2% of base weekly salary or the employer match. Using actual FY 2012 data, raising the auto enrollment contribution amount to 2% will increase biweekly employee contributions by an average of $8 for approximately 2,200 employees. As a result, employees will contribute an estimated additional $459,000 per year into their individual 457(b) plans.

Explanation of State Revenues: This bill would reduce state taxable income for individuals who contribute additional income to their individual 457(b) plans because employee contributions into the DC Plan are tax deferred. This will likely reduce Individual Adjusted Gross Income Tax collections by approximately $16,000 per fiscal year beginning in FY 2014. Revenue collected from the Individual Adjusted Gross Income Tax is deposited in the state General Fund. This estimate is based on FY 2012 state employee DC Plan participant information.

Explanation of Local Expenditures:

Explanation of Local Revenues:. Increasing employee pension contributions will likely decrease taxable income, so counties imposing local option income taxes (LOIT) could potentially experience a decrease in revenue. Using the median current LOIT rate of 1.45%, LOIT collections on a statewide basis could potentially be reduced by $6,700 annually beginning in FY 2014.

State Agencies Affected: Auditor of State, Indiana Deferred Compensation Commission.

Local Agencies Affected: Counties with a local option income tax.

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